

**CIGARETTE / TOBACCO STORE
TOPLINE**

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RJ Reynolds
Tobacco Company

51850 0579

CIGARETTE / TOBACCO STORE TOPLINE

The cigarette industry is facing two critical issues that could immediately have a serious impact on the methods by which business is conducted.

- ❑ Cigarette / Tobacco Store emergence, and its role in becoming more than just a niche player in the \$40 Billion cigarette category
- ❑ FDA regulations and their impact on the retail community if enacted as they are written today

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Topline : Cigarette / Tobacco Stores

- ☐ Fastest growing retail format in the Cigarette Industry
- ☐ Trade Class has experienced a 58% increase in total outlets during the past 12 months
- ☐ 12% of all cigarettes sold are sold through cigarette stores, 1996 year-to-date
- ☐ Key elements to the success of these outlets:
 - ☐ Pricing strategy relative to nearby retail carton outlets
 - ☐ Full brand selection
 - ☐ Proper mix of promotional activity
 - ☐ Product accessibility / clean environment
 - ☐ Exterior advertising / pricing communication
 - ☐ Smoker friendly environment

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Today's Situation :

Three Types of Cigarette / Tobacco Store Topline			
<u>Outlet Type</u>	<u>Definition</u>	<u>#</u>	<u>Avg Volume</u>
Reservation Store	On Indian Reservation Land. Exempt from tax laws. Very high volume.	435	2,751
Border / Interstate	On high/low tax borders. High traffic low state tax interstates.	318	1,259
Cigarette / Tobacco Store	High volume outlet. Historically, highly cluttered with emphasis on promotion across all price tiers. Emerging format is more focused on tobacco sales only, in a clean, upscale, full price oriented venue.	3,651	991

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Demographic Topline:

- ❑ Cigarette Store shopper demographics will vary depending on the location of the store.
- ❑ Historically, high volume boarder/interstate locations are shopped by a higher percentage of 35+ age group. High level of multi-carton, planned purchases. Transient customer.
- ❑ Strip mall locations adjacent to supermarkets and mass merchandisers attract more female shoppers.
- ❑ Stand alone cigarette stores are shopped by a greater cross section of consumers. Category mix will impact customer base.
- ❑ The newer cigarette / tobacco store format is competing with mainstream C-store and Supermarket retail outlets for the marketplace cigarette volume. Business is built and maintained through local/repeat customers.

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The Cigarette / Tobacco Store Layout :

- ❑ Strip Center locations are typically in the 800-1,200 square foot range.
- ❑ Almost exclusively focused on tobacco category with cigarette sales contributing 80-95% of overall sales.
- ❑ Other tobacco items would include cigars, pipe/smoking tobaccos, smokeless products and tobacco related accessories.
- ❑ Space requirements depend on the number of additional categories merchandised in the store.
- ❑ Carton, package and promotional fixturing for the tobacco category is generally provided by a combination of the major tobacco manufacturers.
- ❑ A variety of upscale advertising pieces are also available through the manufacturers.

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Retail Display Allowances :

- ❑ Cigarette / Tobacco Store retail merchandising contract requirements vary by company, however they generally target the following components:
 - ❑ Equitable inventory and space for packs and cartons
 - ❑ Product availability / Brand selection
 - ❑ Promotional display capability for packs and cartons
 - ❑ Signage to communicate brand messages and promotion activity
- ❑ It's important to note that although RDA payments are important, overall profitability and ultimate success must come from the category's sales performance.
- ❑ A **Total Category Management** approach ensuring exposure and promotional resources across all brands and price tiers is recommended to build business and maximize customer satisfaction.

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Cigarette / Tobacco Store RDA Example:

Average Weekly Volume

Company	800	1000	1200
R. J. Reynolds	\$455	\$541	\$606
Philip Morris (Level MPL1)	\$440	\$550	\$550
B&W	\$365	\$365	\$415
Lorillard (Row Contract)	\$200	\$200	\$200
Liggett (Row Contract)	\$50	\$50	\$50
Total	\$1,510	\$1,706	\$1,821
PM Exclusive Comparison	\$1,101	\$1,155	\$1,222

All payments are earned monthly and paid quarterly.

This matrix assumes the following share of market by company :

RJR - 30%

B&W - 19%

LIG - 2%

PM - 44%

LOR - 5%

Key Issue: In PM Exclusive situations, RJR has no payment program and removes all promotional resources. In many markets B&W has also pulled all promotion spending. This obviously significantly impacts sales, profits and customer satisfaction.

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C/T Store Profitability Snapshot

(from cigarette sales only) :

	Average Weekly Volume		
	<u>800 CPW</u>	<u>1000 CPW</u>	<u>1200 CPW</u>
Total Dollar Sales	\$680,270	\$850,337	\$1,020,405
Pack / Carton Ratio	20/80	20/80	20/80
Gross Margin - Carton	8%	8%	8%
Gross Margin - Pack	18%	18%	18%
Total Weighted G.M.%	10.1%	10.1%	10.1%
Gross Profit	\$68,771	\$85,963	\$103,156
Industry Display Allow.	\$18,120	\$20,452	\$21,852
Total Gross Profit	\$86,891	\$106,415	\$125,008
Average Inventory Cost	\$23,519	\$29,399	\$35,279
Average Turns Per Year	26	26	26
ROI \$	\$2.92	\$2.92	\$2.92
Pre-Tax Expenses (Est.)	\$60-75K	\$60-75K	\$60-75K
Cost Input: Full Price \$14.89 (54 SOM) Savings \$12.19 (39 SOM) Private Label \$9.50 (7 SOM) Fair Trade States may require higher margins then what is used in this non fair trade state example			

* Pre Tax Expenses will vary depending on salaries , lease costs, level of advertising etc.

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Cigarette / Tobacco Store Observations:

- ☐ ***Pre Site-Selection Homework*** is key to determine:
 - ☐ Marketplace volume opportunities
 - ☐ Marketplace pricing strategies
- ☐ Adult only format resolves youth access issues.
- ☐ Implementation of a total industry approach will maximize sales.
Don't lockout business building promotion opportunities!
- ☐ Fixturing / Advertising - Allow industry manufacturers to place their fixturing and signage as needed. Avoid unnecessary costs.
- ☐ Other Categories
 - ☐ Cigars and other tobacco related items compliment store sales and consumer appeal
 - ☐ Lottery fits well where available
 - ☐ Limit non-tobacco categories - risk losing identity

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